J. C. McRuer

Canada Textile Industry, Royal Commission on

Factum submitted on behalf Canadian Cottons, Ltd

ROYAL COMMISSION ON THE TEXTILE INDUSTRY

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FACTUM SUBMITTED ON BEHALF OF
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We propose in this Brief to deal only with questions solely affecting Canadian Cottons, Limited. General questions affecting all the trade will be discussed in the general brief submitted on behalf of the textile industry.

In view of the controversy that has arisen during the sittings of the Royal Commission regarding the question of inventory discounts, and particularly as to the correctness of the Company's income tax returns, we submit an outline of the manner in which these discounts have been dealt with by the Company and a statement of the considerations which render it advisable to adhere to such a system.

A. ENQUIRY BEYOND THE SCOPE OF THIS COMMISSION.

The Company's argument is presented under reserve of the objections made on its behalf in so far as the production and discussion of income tax statements are concerned.

The Commission has been appointed for the purpose of making an inquiry into various matters which "will enable sound conclusions to be reached regarding the position of this and other branches of the Textile Industry in relation to British and foreign competition and, in particular, the extent to which the employer can reasonably and properly be expected to maintain employment over periods of temporary difficulty".

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The Order-in-Council appointing the Commission in the next paragraph includes "the causes of the existing or any other such sudden cessation of industrial operations as may be referred to" the Commissioner, the cessation in question being one which took place at the mill of another company.

The Order-in-Council may, perhaps, justify the Commission in obtaining evidence regarding the reserves of the Company and the valuations at which it carries its assets. But nothing in the Order-in-Council empowers the Commission to grasp at a jurisdiction it does not possess and to seek to substitute itself for the Court designated by the Income War Tax Act to deal with cases under that Act. A discussion of the correctness or incorrectness of the Company's returns cannot assist this Commission in any way in determining the questions it has been appointed to investigate, to wit: the position of the Textile Industry in regard to British and foreign competition and the extent to which the employer can reasonably be expected to maintain employment over periods of temporary difficulty. The extent of the Company's reserves and the principles on which they are maintained may perhaps be relevant for this purpose, but the Company's dealings with the Income Tax Department are clearly irrelevant to the objects of the Commission.

As a result of the Commission's assumption of an unauthorized jurisdiction, this Company has been illegally deprived of two of the important rights of a Canadian subject, - the right under Section 68 of the Income War Tax Act to have a government claim for income tax discussed in camera and the right to privacy created by Section

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81 of the same Act.

The wording of both these sections clearly shows that the underlying principle of the administration of the Income War Tax Act in this country is the privacy of the taxpayer's return. Any contrary system results in manifest abuses, and a company is entitled just as much as an individual to be protected against idle or malicious gossip. If it is intended that a Royal Commission should depart from this principle, and that an exception to section 81 of the Income War Tax Act should be created in its favour, its authority should be clearly stated in the Commission appointing it and should not be a matter of doubtful inference from vague and general language which we submit does not bear the interpretation sought to be placed upon it. Even the Supreme Court of Canada has asserted on numerous occasions that it will not grasp at a doubtful jurisdiction. (See for instance Langevin vs Municipality of St. Marc 18 S.C.R. 599 at p. 605).

The evidence was admitted on the ground that Mr. Dawson, the President of the Company, had stated as his opinion that the Government had not lost a copper as a result of his company's methods of valuing its inventory and because he had further stated that the facts were known to the Income Tax Department. These statements were both made on questions submitted by the Commission's attorney, who then conceived it to be his duty to undertake an apparently unauthorized investigation on behalf of the Income Tax Department and to go into the entire question of the correct amount of tax due by the company and the correctness of the company's returns, both questions which are in no way relevant

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to any legitimate findings of this Commission, and for which another forum is provided by statute, where the interests of the taxpayer are properly safeguarded.

We submit that this Commission is not entitled to substitute itself for the properly constituted courts of the country, and that the evidence regarding the company's income tax statements was illegally and improperly submitted to this Commission and ought in justice to this company to be disregarded.

B. NATURE OF THE COMPANY'S DISCOUNTS.

Under reserve of the foregoing objections,we propose, however, to consider and discuss the bookkeeping system of Canadian Cottons, Limited and its practice in making its income tax returns.

In the first place the Company's system was adopted without any regard to its effect upon the Company's taxation and several years before the passage of the Business War Profits Tax Act and the Income War Tax Act, and was in operation from the re-organization of the Company in 1910. Long before the days of income taxation it was customary for the business man to take stock at the end of each year and to prepare a statement of his assets and liabilities. A long period of bad business throughout the world marked by frequent bankruptcies had already shown the necessity of proper reserves and conservative valuations for any company which desired to remain in business on a stable footing, and the Company from its reorganization sought to apply the lessons of experience.

In the preparation of the annual statement a valuation of this Company's inventory has been

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In the preparation of the annual statement a valuation of this Company's inventory has been

customary. This inventory deals generally with three main items. The first, and by far the major part, of the inventory consists of finished goods and unfinished goods off looms. The second item consists of goods in process of manufacture. The third item consists of raw materials.

The first item (finished goods and unfinished goods off looms) was based upon the Company's listed selling prices for finished goods. It is obvious that to the shareholders and others interested in the Company the listed selling price is not the true value of the goods represented by the Company's inventory and in many cases is not even the actual price of sale. A deduction is necessary and proper to cover selling costs, overhead expenses, cash discounts, seconds, jobs, depreciation and unearned profits, as well as some other items, particularly the finishing of such goods off looms as still require finishing, dyeing, napping, etc. No one would expect the company to value its inventory at listed selling price without taking proper account of these deductions, nor does any Government expect this. Recognizing this fact the Company took from the listed selling price of its goods a discount, increased from time to time as conditions warranted or made necessary, and this discount had grown to 25% before any question of taxation was involved.

If the Company in its first inventories had valued its goods at listed selling price it would have given to its shareholders a much too optimistic idea of their situation. Companies which carry their inventories or other property at high figures do not really know their true position. They are encouraged to deplete their bank accounts and reserves, to declare more dividends

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and to spend more money than is reasonable. If their inventory suddenly declines in value ~~of~~ or if they suffer any other substantial loss they are apt to find themselves on the verge of ruin if not in actual bankruptcy.

The necessity of the discount is beyond dispute. The proper rate of the discount is a matter of opinion. The Company took the stand at all times that an ample rate of discount should be taken and the inventory valued at conservative figures. If the discount has grown since 1916 it is because unprecedented situations have arisen since that time requiring a greater caution in the conduct of business than in previous times.

Raw material was taken at a basic figure, in recent years five cents a pound, a figure which has been reached and even passed in the history of the Company. For instance, in June, 1932, cotton sold at 4.91 cents a pound, and in December, 1914, the laid-down cost at the mills of this Company, freight (a serious item) included, was as low as 5.96 cents. Goods in process of manufacture were valued naturally by a combination of both methods.

There is nothing in the Company's system which can possibly reduce the amount of its income tax. An estimate of the value of any company's goods, taken before they have been disposed of, is only provisional. It is at the best a guess made by the Company's officers. Three cases only can arise. First, the estimate agrees with the ideas of the Government Inspector exactly, in which case there is no dispute. Second, the Company's valuation is higher than that of the Government Inspector. As a result the Company is shown as having a more

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profitable year than the Government says it has had and to that extent the Company according to the Government's view overpays its income tax for that year. But any such overpayment is immediately corrected as soon as the goods are disposed of in the following business period. If they have been valued at too high a rate by the Company its profit in the next period is diminished by exactly the amount of the previous over-valuation and a lower income tax is paid.

The third case is that of the Company's valuation being lower than that approved by the Income Tax Department. In this case the Company appears for that year as having had a less profitable year than the Government says it has had. It pays less income tax than is claimed by the Department. But here again any defect is corrected immediately in the next business period. When the low valued goods are sold the difference between their inventory value and the sale price is higher than it would have been by exactly the amount of the Company's under-valuation in the previous period. In all cases as the goods in the inventory are turned over their price is received including all the profits the Company is making and these profits are immediately taxed. Not a cent of income tax is avoided by this system which was in force before the income tax was even thought of. Whatever may be the rate of discount from listed selling price, whether it be high or low, the only question at issue is this, - At what time shall the tax be paid? Shall it be paid before the goods in the inventory are turned over (when the profit is a matter of guess work) or shall it be paid when the goods have been sold and when the profit

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is exactly ascertained? All that the Company has done is to follow the second of these alternatives, and we submit that its actions in this respect are sound, both from a business and from a legal point of view. Nothing in the Income War Tax Act calls upon the taxpayer to pay a tax on profits before they have been received by the taxpayer. The facts of the case are that the Company has declared all its profits as soon as they were actually made and has paid income tax on all its profits when made without any reserve or concealment.

The Company's system does not differ from that followed by a doctor or any other professional man. A doctor does not consider that he has made a profit when he has treated a patient. He considers that he has made a profit when he has received his fee, and he then declares it as his income and pays his tax upon it. No one has challenged a doctor's right to pay his tax on this natural and proper basis and all that the Company demands is that it shall have the same right.

The Company's inventory records have been carefully kept, neatly written in the early days, typewritten later, priced as above stated, and at the bottom of each page of these lists the discount was clearly shown. The inventories were initialled by the General Manager or some other official of the Company and by the Company's auditor.

Nothing could be further from the fact than to speak of these discounts as hidden reserves. There was nothing hidden about them and they are not reserves. When this Commission was appointed the Company's auditor was suffering from a fatal illness and Mr. C. B. Brown of Ritchie, Brown & Company, Chartered Accountant, was engaged to complete the

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questionnaire prepared by the Commission's experts and all the Company's books were open to him for that purpose. He furnished the Commission with all possible information regarding the Company's operations during the last twenty years, including full particulars of all discounts taken on inventories, as called for on the Commission's Form headed Raw Material and Inventory Data, and the evidence clearly shows that this information was apparent, and far from being hidden was obtainable on the most casual inspection. The company's return was filed long before any officer of the company had been examined by the Commission. The Company has hidden nothing.

Nor is it correct to speak of this discount as a reserve. No amount was ever set up as a reserve or in any way appropriated from the funds of the Company for this purpose. To suggest that the Company has in its hands a secret fund of some two million dollars is to create an altogether wrong impression of its resources. A discount reaching at times to that amount has been properly shown according to sound business methods upon the Company's inventories, deducted from the value of raw material and finished and unfinished goods in the Company's hands. But this discount is not cash in the Company's hands at all. For purposes of illustration - If the Company has goods on hand which it will try to sell for approximately Four million dollars, and if it values these goods for the purposes of its statement at Two million dollars, all that it has in its hands is goods of uncertain cash value. It has not by this valuation created any additional wealth. No reserve fund whatever has been created.

It should be noted that the total amount of the discounts is not an amount to which additions are made year by year as in the case of a reserve. If the Company's inventory increases, the rate of

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discount remaining the same, the amount of the discount naturally increases, and similarly it ~~does~~ goes down again as accumulated stocks are disposed of. The amount of the discount was actually smaller by some $ 35,000.00 on March 31st, 1936, than it was in 1920, and on September 30th, 1936, it was smaller by about $533,000.00, as a result of the company's increased sales.

C. WERE THE DISCOUNTS DISCLOSED TO THE GOVERNMENT?

In the first place if anyone is disposed to be critical of any company by reason of the fact that some of its earlier returns are not now considered full enough from an exacting legal standard, it must be borne in mind that when the Income Tax Act first came into force it was natural to expect a certain amount of uncertainty and confusion in the minds of those who were called on to fill out income tax returns. It has taken many years for a generation to grow up accustomed to the filling of forms which is now becoming a feature of our daily life, but which was practically unknown before the war when governments limited themselves to comparatively modest activities not requiring the multiplicity of forms now in use. Even at this date comparatively few business men, and not very many attorneys, have developed any conspicuous ability in the filling out of income tax returns and they are obliged to enlist the services of accountants and specialists in these matters. We submit that the forms filled out by the taxpayer, and certainly those in the early stages of the administration of a new and complicated statute, have to be considered with due regard to human imperfections, and that viewed in a reasonable

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light it will be found that this company's returns gave ~~a~~ sufficient information to permit the Department to assess and collect any tax which might be fairly due, and, in particular, sufficiently disclosed the company's method of taking discounts from its inventories.

The correspondence filed with this Commission shows that in the year 1920 Canadian Cottons, Limited had retained tax experts who discussed the company's returns minutely with the late Mr. R. W. Breadner, the Commissioner of Taxation at that time, and who reached an adjustment with him after a long correspondence and many interviews.

The first returns required by the Government contained the following certificate of inventories:

> " I   , the
> of the Company, making this return, do hereby certify that the inventories included in the above schedule were taken on a   basis and do not contain any allowance for shrinkage or decline in value other than as follows: "

It will be seen that a very short blank was left in the above form to insert the basis on which the company's inventories were taken. The blank was a line two inches long.

From the year 1921, the first year in which the Company was taxable under the Income War Tax Act, until 1925 inclusive, and up to the time of that officer's death, these returns were completed by Mr. Alex. Bruce, the Company's Secretary-Treasurer. In some cases through an oversight he did not sign the certificate of inventories, but in all cases he referred to the inventories as being taken on

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a cost or market basis. The space provided on the Government forms in which these words were filled in was just sufficient for him to write the words "cost or market", and it must have been evident to him that a very summary indication only of the method of inventory was all that was required. In view of the fact that the inventories are based on a combination of cost and of listed selling price, less certain discounts and deductions, Mr. Bruce's statement was such as anyone would consider appropriate. He made no observations as to any allowance as to shrinkage or decline in value, and properly so, because the discounts and allowances were not at any time specifically taken to cover shrinkage or decline in value, but covered a large number of items above referred to. Any company officer might well consider the returns in this respect sufficient, particularly if, as we submit, he knew precisely the extent of the supplementary verbal information he was giving to the Department's inspectors in the regular course of their customary investigations.

In the year 1926 Mr. Bruce died and the certificate of inventories was not even completed.

In the years 1927 to 1932 the company's returns stated that the inventory was taken on a cost basis, less a deduction summarily described as "usual", except in 1930 when by a purely clerical error the company failed to fill in this part of the return. In as much as the listed selling price which forms the basis of the major part of the inventory is not necessarily a market value, but is simply the price at which goods are offered, and is built up from cost

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price, it bears a distinct relation to the cost and is accurately stated to be on a cost basis. The material point about the returns from 1927 onwards is that they now disclose completely that the company is deducting an allowance from its inventory which it refers to summarily as "usual".

On the 1st of October, 1932, the Department of National Revenue for the first time issued a ruling requiring inventories to be taken at cost or market price. It is to be noted that the Income Tax Act itself makes no such requirement and we submit this ruling is distinctly open to question. Department regulations cannot add anything to the tax imposed by Parliament.

In 1933 for the first time the income tax return asked, in accordance with the above ruling, three specific questions with reference to inventories, and from that time to date the returns were filled out as follows:

Question: "Were inventories taken (a) at cost price?
Answer : At cost or list.
Question: "Were inventories taken (b) at market value?
Answer : ....
Question: "If not, on what basis?
Answer : Less usual discounts. "

Even if any errors were made in the wording of the inventory certificate for some of the previous years, and this is not admitted, the attention of the taxing authorities was squarely drawn to the company's discounts by the returns from 1927 and the reference to "usual discounts". The very generality of the words used was such as to invite inquiry.

price, it bears a distinct relation to the cost and is accurately stated to be on a cost basis. The material point about the returns from 1927 onwards is that they now disclose completely that the company is deducting an allowance from its inventory which it refers to summarily as "usual".

On the 1st of October, 1932, the Department of National Revenue for the first time issued a ruling requiring inventories to be taken at cost or market price. It is to be noted that the Income Tax Act itself makes no such requirement and we submit this ruling is distinctly open to question. Department regulations cannot add anything to the tax imposed by Parliament.

In 1933 for the first time the income tax return asked, in accordance with the above ruling, three specific questions with reference to inventories, and from that time to date the returns were filled out as follows:

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Answer : At cost or list.

Question: "Were inventories taken (b) at market va

Answer : ....

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It is clearly established that there is a very wide diversity in methods of dealing with inventories, both from the evidence made before this Commission, and the mass of literature that exists on this subject, which has been discussed ad infinitum both within and without Government circles. It is at least fair to presume, as Mr. Dawson did in giving evidence, that the Income Tax Department, through its inspectors, gave due consideration to the statement of usual discounts above referred to, and made sufficient inquiries regarding the methods adopted in the taking of inventories for the purpose of making its assessments. Certainly, the management of the company was left under the impression that the company's returns and methods were entirely satisfactory to the Department.

In this connection it is significant that in the 1921, 1926 and 1930 statements the Company's officers inadvertently omitted to fill in the paragraph regarding inventories, and that, nevertheless, this omission was at no time challenged by the Department. It must be presumed that the Department's inspectors satisfied themselves with reference to this item in order to make their assessment for those years.

Further, it will be noted that the returns for the years 1924, 1926 and 1927 were the subject of adjustments with the Income Tax Department involving items amounting to a million and a half dollars charged to operations by the company but ultimately disallowed by the Department. To arrive at this adjustment an inspection of the company's books was surely required and made.

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It is true that these adjustments affected charges for maintenance of buildings and plant, but it is impossible to assume that the inspectors who challenged the company's figures in one department and proceeded to make a careful and independent investigation and assessment would simply have shut their eyes to the company's statement of usual discounts in dealing with its inventories, which play just as important a part in the determination of a company's profits. It is equally impossible to assume that the inspectors who were carefully revising the company's assessment would have allowed the omissions to fill in the paragraph dealing with inventories to go unchallenged in the years in which these occurred. If this was not dealt with by letter, it was surely because it had been dealt with otherwise, to the Department's satisfaction. The overwhelming presumption that disclosure must have been made is strengthened by the fact that this company has at no time had anything to conceal from any Government Department and its dealings with the Government have always been recognized as fair and above-board. The Commissioner of Taxation in giving his evidence stated to the Commission that his inspectors had never had any difficulty in obtaining any information they requested from Canadian Cottons, Limited. It is not, therefore, to be lightly presumed that a taxpayer of this standing is failing to disclose essential information to a Government Department. It would, in fact, be impossible to find a motive for any concealment by any one of the persons involved in making the company's returns.

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Business Profits Tax Acts, three representatives of the Company have discussed its statements with the taxing authorities, Mr. John Miller, accountant and auditor, of Toronto, Mr. Alex Bruce, Secretary-Treasurer of the company until his death in 1926, and Mr. C. W. Baker of Baker, Birnie and Company, Montreal, Chartered Accountants. None of these men could have benefited personally by withholding any information as to the methods followed by the Company in valuing inventories, and their personal reputation was above reproach. As far as the Company has been able to discover to date, no one else in connection with the Company has been interviewed by the officers of the Income Tax Department. Unfortunately these three men are all dead, Mr. Baker having died during the sittings of the Commission in September, 1936, after an illness of several months, and, therefore, under these circumstances the Company, being unable to make direct proof, submits that it is fairly entitled to rely on the reasonable presumption that sufficient and satisfactory disclosure has been made to the Government. We have not the slightest doubt that if these men had been available they would have given the Commission a clear and convincing explanation.

We submit that the unfairness of making an exhaustive examination of a company's records, or indeed those of any person, long after the death of the persons having knowledge of the facts, is so repugnant to the most elementary principles of justice as to require no further discussion. Surely after ten or even five years it should be possible for the Government to complete its investigations and to

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D. CONSIDERATIONS IN FAVOUR OF COMPANY'S SYSTEM.

Throughout the inquiry both the Commissioner and Counsel for the Commission repeatedly remarked that their criticism was not addressed to the Company's system but solely to the Company's alleged failure to disclose the discounts. We may therefore assume that the business policy of the company as regards conservative valuation of inventories meets with the Commission's approval, but in order to assist the Commission in making its relevant findings, particularly with regard to the maintenance of stable labour conditions, we propose to discuss briefly some of the effects of the company's accounting methods.

1. In reference to employees. It is this company's view that in the operation of a business the shareholders, who are its owners, should give the employees fair consideration in every respect. In the words of the Order-in-Council creating the Commission, the company has recognized its responsibility to carry on its operations with due regard to its obligations to its employees and the public, and not to arbitrarily shut down its plants. In accordance with this belief the company has sought to the best of its capacity to maintain employment during years of depression. The Company has continued to manufacture and to accumulate finished goods often without knowing when these products would be sold or what price they would fetch. If a different policy had been followed, a distressing unemployment situation

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would have resulted and the Government's expenditure for relief would have been greatly increased. The Government statistics show that in Cornwall, where the company operates three mills, and in Milltown and Marysville, N.B. where the only industries are those of Canadian Cottons, Limited, there have been fewer people on relief in the last seven years than in almost any other centres in the Dominion, and it is submitted that this was due to the company's policy of maintaining stability in production.

Again, during the war years it was apparent to all discerning persons that the coming of peace would be followed by a rapid fall in prices, and it would have been little short of folly for a company to value its inventory at the inflated market prices of the war years, especially in the case of textile companies exposed to violent fluctuations in the price of raw cotton. In 1920 the company lost approximately $1,400,000 by a drop in inventory values. Raw cotton dropped from forty-three to eleven cents a pound in the course of a few months. Had it not been for the conservative valuations made prior to that year the company could not have met the loss. It would have found itself in the hands of its bankers and, indeed, would have faced liquidation, and more than 3,000 operatives with their dependents would have been exposed to unemployment at a time when relief facilities were as yet undeveloped. The way in which Canadian industry in general, and this in-

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dustry in particular, adapted itself to post-war dislocation certainly saved the taxpayer the cost of several years of unemployment relief. This experience amply justified the adoption of the company's policy and its continuation to the present time.

By maintaining stable conditions the company has also maintained the morale of its workers and their dependents by providing employment instead of exposing them to the humiliation of relief and the demoralization of idleness.

These results were only made possible because the company, relying on the correctness and acceptability of its returns to the Government, could assume the risk of manufacturing and piling up stock for which there was no immediate demand. It is vital to national well-being that nothing should be done to discourage employers of labour from assuming such risks. We submit that if the system followed by this company is allowable, its employees can face a depression with confidence, but if the company cannot make suitable provision for such situations by carrying ample discounts from its inventories, it cannot be expected to take the risk of continuing to manufacture goods for a falling market.

The Government has always recognized the principle of avoiding the taxation of insurance. But here is insurance against national disaster which has twice in recents years proved its value, and the suggestion is made by Commission Counsel that any such provision must be in the form of a special fund, saved up for that

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purpose by the company out of its tax-paid profits, retained from its shareholders and directly labelled as a reserve. Not only would it be difficult in many companies to get the shareholders to make such a saving, but the company would be exposed to the possible payment of income tax on the value of goods manufactured in excess of the company's wants before the profit or loss on these goods has been ascertained. The obvious result of any such system will be to discourage manufacturing in excess of a company's immediate requirements with consequent curtailment of work and greatly increased unemployment in any time of depression. The taxpayer, through relief, will bear a greater part of the burden formerly carried by industry and the industry on its part will avoid all possible question of income tax.

A word as to the company's wages. One reduction only was made throughout the most trying years of our industrial history, and this reduction was only 10%. At the end of a year 5% was restored, and during 1936 wages were restored to the full 1929 level.

It is interesting to note the fluctuations in the cost of living during the same period. The index of the cost of living reached its record high of 129 in the first half of 1920, dropped to 100 in the middle of 1922, remained fairly stable till January, 1930, when it stood at 102.1, then slipped down to the low point of 76.6 in 1933, and has now risen to 81.9 for September, 1936, the latest figure we have seen at the time of preparing this Brief.

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While the cost of living was going down rapidly the company maintained wages until 1933, when it made a 10% cut, at a time when the cost of living had been reduced by over 25%. The Company's employees are today receiving the same wages as in 1929, although the cost of living is still shown, according to the Dominion statistics, as 20% lower.

Certain exhibits have been filed showing hourly and weekly wages paid to employees. When these exhibits were filed in Cornwall, Commission Counsel,upon being requested by the company's Counsel so to do,made at the same time a declaration showing the basis on which these figures had been made. Such a declaration does not accompany the exhibits filed by the Commission showing the company's wages at other points. It is necessary to qualify the weekly returns of wages paid by the company by pointing out that they covered one pay-roll only, that if an employee was absent for part of the week he was taken as receiving correspondingly small wages, and that as the mills were then to some extent working on short time the return is naturally different from what it would be in a week of full time employment. The company has taken the very proper stand that when complete work is not available for all it is preferable to distribute employment among as many as possible rather than to continue a smaller number of employees on full time. This policy has met with general approval and has been followed in many other industries.

2. THE SHAREHOLDERS. Not a single shareholder of the company has complained of this business having been conservatively managed. Not one complaint has been received from shareholders with reference to the discounts taken from inventories. On the contrary, a great number of shareholders have expressed their appreciation of the fact that for the past twenty years, with the exception of 3½ years when no dividends were paid on the common stock of the company, both preferred and common dividends were paid with regularity, a result which would have been clearly impossible without a policy of stability. Stability is what the shareholders are continually and properly looking for, and we are satisfied that the company's shareholders are practically unanimous in their support of the stocktaking methods followed by the company since its inception. A contrary policy of violent fluctuations might well suit the speculator, but this is not the type of shareholder that can be considered desirable for a company, from the broad national point of view, or indeed from any other.

3. THE CUSTOMER. The Company has followed a policy of protecting its customers against losses on goods due to a fall in prices, a very frequent situation in the textile trade. In 1920 cancellations of orders were accepted amounting to approximately $2,268,000.00. Had the company been forced into liquidation by being unprepared for the situation that arose in that year, a liquidator would have been bound to exercise the company's clear legal rights, and many converters, wholesalers and retailers would in turn have been forced into

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liquidation. In this way, again, this company made a distinct contribution to the saving of the country from the effects of post-war dislocation, and we submit that it was only able to assist its customers at this time because of the policy it had adopted of setting up proper reserves and of placing conservative values upon its inventory. Here again the contrary policy would have meant ruin to all concerned, as the company could not have afforded to accept cancellations of orders had it not valued its goods on the conservative basis indicated above.

In this connection it should be noted that in recent years the manufacturer has been obliged to carry a larger inventory than might at times have been normal, due to the hand-to-mouth buying of his customers. In previous times wholesalers carried large stocks for the service of the retail trade. The manufacturer in recent years has, on account of his greater resources, been left to perform the duty of the wholesaler to a very substantial extent. He is now forced to carry the stocks and accept the risk of so doing, and, as we have already submitted, he can only do so if he is allowed to carry them at a value which will not involve him in possibilities of serious loss. The manufacturer is entitled to be a manufacturer, and not a speculator.

4. THE CONSUMER. We submit that the consumer is benefited by any system or policy which permits a manufacturer to produce under stable conditions. It has repeatedly been shown that any temporary gain a customer can make as a result of goods being thrown on the market, cut-throat competition, and the like

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Moreover, modern business life is so inter-related that if the manufacturer or the employee in any important industry are effected, the consumer soon feels the results in his capacity as a wage earner, and his interest is clearly to maintain general stability in business conditions.

It may be noted that in the fiscal year ending March 31st, 1936, the company earned from the consumer an average of 1½% on its entire turn-over, surely not an undue burden for the maintenance of this enterprise.

5. THE GOVERNMENT. In the first place the company's method is one which makes for easy Government inspection. Of all the many methods of taking inventories it is the easiest to check. By taking inventories at listed selling prices, less a discount, Auditors and Income Tax Inspectors have only to ask for a copy of the price list at which the goods in stock are being offered for sale. Naturally the company tries to get as much as it can for its goods and hence these list prices are in the usual case the best to use as a basis for taxation purposes. After the inventory has been checked it is only necessary for the manufacturer and the Income Tax Department to agree upon what discount shall be allowed on listed selling prices to take care of the various charges above referred to. If hit and miss methods are followed in the taking of inventories no Auditor or Government Inspector can obtain an adequate idea of the value of the inventory that is submitted to him. It would be physically

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We submit therefore that if the company's policy of taking its inventory is made uniform throughout Canada the Government will be able to save a substantial amount in the cost of inspection.

We submit further that if the sound business methods followed by this company in taking inventory are recognized and made uniform throughout Canada the Income Tax Department can only gain by such a course,- taking into consideration the inevitable repercussions of any contrary policy. Even from a narrow point of view it cannot be to the interest of the taxing authorities that conditions encouraging stability should be abandoned or rendered more difficult. If the discount taken by this company is substantially lowered, it has already been submitted that the company will have much greater difficulty in maintaining continuous employment and in standing behind its customers in times of falling prices.

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Increased bankruptcy and unemployment spread throughout the country can in no conceivable manner result in a sound basis for a good income tax return from the country's taxpayers. Even if it were possible by lowering the company's rate of discount to add to the amount of its taxation during any particular period, it is submitted that the Department in so doing would be taking the narrowest possible point of view, and even if it could derive a comparatively small profit from so doing during such a period, this would be more than offset by a loss from unstable conditions which is not easy to calculate but which is none the less certain.

Again, if the company can carry forward stocks at a conservative figure and therefore hold these in bad times until they can be sold under normal conditions, a profit will result instead of a loss and the Government will get its share of this profit. Here again the Government benefits from the true reactions of the company's policy. If instead of maintaining its inventories the company throws its goods on the market at such a time - as it would be obliged to do if any different policy were followed, this could only result in accentuating the fall of prices, ruining many converters, wholesalers and retailers and inflicting on the Government, and particularly on the Income Tax Department, its share of their loss.

We further submit that in all companies profitable operation depends on the volume of the company's production. The cheapness of mass production is self-evident. Volume of production can be maintained by manufacturing for inventory, as well as for sale, but a company which does not have its in-

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ventory protected by conservative valuations could not safely maintain volume of production by manufacturing for inventory. As a result the company's volume of production would drop and the company would not be in a position to produce the taxable profit which should result from the maintenance of an even volume of production.

To illustrate how fair it is to the Government to take all finished goods into stock at listed selling prices less a discount, we attach a record of certain lines of stock goods at listed selling prices when inventory was taken at the close of the last fiscal year, March 31st, 1936. These lists show the style numbers, quantities and prices at which the goods were taken into inventory, the actual price at which they have been offered or sold, and the consequent loss likely to be suffered by the company as a result on the basis of the figures presently available. What these stock lines still on hand will eventually bring no one can tell, but it is evident that most of them will have to be disposed of at a considerable loss. When such goods are taken into inventory at listed selling prices a generous discount must be made thereon, as otherwise income tax would have to be paid upon a transaction that would result in absolute loss to the company. If the unsaleable goods shown on the attached memorandum are eventually disposed of at prices already accepted, or at prices at which they have been offered but as yet have found no buyers, the company faces a loss of over $140,000.00. This memorandum covers stocks at but two of the seven mills owned or controlled by this company, where the principal losses of this nature have occurred.

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During the hearings of the Commission certain purely tentative figures were submitted by the Income Tax Department showing the results of following out a system contrary to that followed by the Company of taking discounts from inventories. For a total of seventeen periods under the Income War Tax Act these figures differed from those of the Company by only about $200,000.00 and they are open to discussion. According to the present contentions of Commission Counsel there were several years in which the company actually overpaid what was legally due. But these figures do not tell the whole story. It is manifestly unfair to accept such a calculation in an intermediate stage of the depression period, when inventories have been piled up largely in order to maintain employment, without seeing the result of at least one or two periods of substantial recovery. In such a period of recovery the company's goods listed in its inventory are bound to be disposed of to a substantial extent, and the natural tendency is for such disposal to take place at a profit. Instead of carrying these goods in its inventory at a discount value, the company will now be able to turn them into cash. Instead of having in its assets goods carried at their discount value it will have their full realized price of sale. As the company's inventory is reduced the company's profits will, therefore, be correspondingly increased and this is bound to result in a correspondingly higher income tax. Not only is the company bound in such a period to pay to the Government a much larger income tax than it would have done if no discounts had been taken on the goods, but it so happens that the income tax rates have been increased and the Government's direct profit will be to that extent higher.

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It is, therefore, premature to decide at the moment whether the Government stands to gain or lose by the Company's system. We submit that it is reasonable to expect that after a comparatively short time of prosperity the account will probably be in something like equilibrium. This is the normal result of the company's system, which as we have already shown, does not affect the amount of income tax payable.

We submit, therefore, that if at the present moment the account shows a balance against the company it does not at all follow that the Government is losing any income tax from this company, even if it chooses to limit itself to the narrowest possible view of the case.

E. THE LEGAL SOUNDNESS OF THE COMPANY'S METHOD.

The Income War Tax Act contains no provision as to the way in which a company's profits are to be determined. The relevant part of Section 3 of the Income War Tax Act states:

> "For the purposes of this Act, "income" means the annual net profit or gain or gratuity, whether ascertained and capable of computation as being wages, salary, or other fixed amount, or unascertained as being fees or emoluments, or as being profits from a trade or commercial or financial or other business or calling, directly or indirectly received by a person from any office or employment, or from any profession or calling, or from any trade, manufacture or business, as the case may be whether derived from sources within Canada or elsewhere; and shall include the interest, dividends or profits directly or indirectly received from money at interest upon any security or without security, or from stocks, or from any other investment, and, whether such gains or profits are divided or distributed or not, and also the annual profit or gain from any other source."

Under this statute until a profit is actually received it is not taxable.

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At page 165 in discussing the way in which profits are ascertained in the case of a business or trade they say:

> " A substantial difficulty is at once confronted inasmuch as the statute does not indicate how profits are to be ascertained."

They refer to the method recommended by one English judge of taking into consideration the total assets at the beginning and at the end of any period. They state that another method might be employed by which only the receipts and expenditures were considered and the surplus taken as a proper measure of profits. They then proceed to discuss inventories as follows:

> " A third method, which is undoubtedly more widely employed, is to compare the assets and liabilities at the beginning and end of the taxing period excluding, however, from such comparison any reference to capital account .... There is no express statutory rule in favor of this method, and perhaps a trader could insist on his profit being ascertained by comparison of receipts and expenditures."

At page 168 they discuss the point at which a profit has been "received". We quote this passage without concurring in all that is said:

> " The Dominion Act imposes the charge simply upon the annual net profit or gain directly or indirectly received, rather than earned or made, and this provision contemplates the determination of profits by the best accounting system applicable to the particular business in question, and the word "received" must be interpreted to mean received in a sense in which it would be used by a business man in referring to the profits of the year of assessment. In many cases it means "accrued" or "earned" so that profits earned, but not actually received or paid, should wherever a business is carried on be regarded as "received" for the purpose of assessment."

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" Where profits are determined by inventories which must be the case where stocks of goods are carried in the course of manufacture or trade, such inventories should be prepared on the basis of cost unless by the character of the business or a particular and well established custom a lower valuation should be accepted. In practice the Commissioner permits inventories to be made out on the basis of cost or market value whichever is the lower.

There might be a case where a taxpayer would desire to inventory on a basis higher than cost, i.e., market value in order to distribute his profits over more than one taxation period, but such a method would involve attributing to the word "received" a meaning larger even than "accrued" or "earned". Presumably there must be a turnover of the merchandise before a profit can be said to have accrued or been received."

In the first edition of the same work written also while both the authors were officers of the Department of Justice in the year 1920, and which is important as showing income tax practice in the early days of the Act, we find at page 195 the following:

" In view of the fact that there are only three provisions in the Dominion Act relating to deductions, it must be assumed that, apart from the effect produced by these provisions, the ordinary commercial practice of business men must be wholly relied on in determining net profits. Furthermore the provision to impose the charge upon the annual net profit or gain directly or indirectly received clearly contemplates the determination of profits by the method of business men best suited to the particular business in question. No regulations have been promulgated by the Commissioner to establish accounting methods, and the system adopted by the taxpayer for his own purposes is accepted except in so far as he departs from good commercial practice."

We also quote from the article in the Encyclopaedia Britannica on profits, the following:

" It is absolutely impossible to determine the profits of a going concern from year to year with precision, because nothing more reliable than estimates can then be formed of the value of its outstanding obligations and unrealized possessions."

The Income War Tax Act does not call upon the taxpayer to pay upon mere estimates but only on profits actually received. Professional men of all kinds have made their income tax returns on this basis without objection and companies are entitled to be treated without discrimination on the same footing.

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wear trade knows that changes of style take place almost overnight and made up stocks of merchandise until actually disposed of are only of precarious value. It would surely be fair to take such facts as these into consideration in estimating the value of a company's goods or determining the time at which profits should be calculated.

We also submit that as long as any company is in operation it requires a relatively constant amount of cotton and goods in process to clothe its machinery. To this extent the inventory reflects values which are as necessary a part of the operating equipment as the machinery itself, and if it is allowable to carry machinery on the books at constant values, it should also be proper to carry this portion of the inventory also at constant values in a manner which this company has done.

From the foregoing it appears clearly that the precise manner of ascertaining the profits of a business which carries stocks of goods from year to year is a very difficult matter and that any solution must be in the nature of a compromise. Having in mind these difficulties we submit with Messrs. Plaxton and Varcoe that any reasonable system which agrees with sound commercial practice should be acceptable from an income tax point of view.

We further submit that these authorities recognize that account must be taken of the character of the particular business, and while they do not illustrate just what they mean by this statement, it is reasonable to consider that a business exposed to style changes and to such severe fluctuations in the price of its raw material as the textile business

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Why should a company be expected to pay income tax on the full value of its goods before they have been sold? The company has not yet made its income on them. Its business is to sell its goods and until the goods have been sold it is impossible to tell whether a profit will be made or not. We submit that to assess income tax on the full value of these goods is to tax imaginary profits, that is, to tax profits before they have been made at all, and that the company was fully justified in its policy of paying its income tax in full on all such goods as soon as its inventory had been turned into cash and the extent of its profits could be properly ascertained. It was only then that such profits were "received" in terms of the taxing statute.

We therefore submit that the company's policy is a sound one, accepted as such by business men, and that accordingly there is no reason why it should not be acceptable as a basis of taxation.

In conclusion we submit that it is not within the jurisdiction of this Commission to deal in any way with the income tax returns or possible liability to income tax of this company. It is abundantly evident that serious questions of law are involved which will be debated before the proper tribunal in due course, and on which on this record it would be premature and even improper to pass.

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The company's profits were also discussed by the Commission and a statement prepared by the Commission's accountant setting forth the capitalization of the company according to his opinions and the re-

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The statement of the Commission's accountant is not borne out by the facts, is entirely misleading and should, therefore, be corrected if any useful deductions are to be drawn from it. It has grossly inflated the company's average profits by making use of entirely unsound methods of accountancy.

In the first place, Mr. Howson omits from the company's capital the bonds amounting to $2,639.408.00, although these were used for the purchase of the company's assets. In figuring out the rate of return upon capital there is no sensible distinction to be drawn between borrowed capital and capital supplied by the shareholders out of their own pockets.

Any economist would regard the bonds of a company as a part of its capital. The Concise Oxford Dictionary defines capital as stock with which a company or a person enters into business. Whether he borrows or not for the purpose of using that stock is a matter of indifference in calculating the return upon the stock actually employed.

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In the third place, in order to increase the rate of profit the Commission accountant deducts the capital losses made by the company in selling off mills of little value. Because the company at a certain stage makes a capital loss he treats this money as if it had never been invested, although rather inconsistently he takes no account of capital gains and savings for the same purpose. We submit these deductions are not proper if it is desired to ascertain with any accuracy what has been the return on the capital put into the company.

In the fourth place, in his efforts to make the capital of the company look as small as possible in order to make the profit look as large as possible, the Commission accountant has further deducted from the capital a sum of $250,000.00. The company acquired in 1892 the mills of Canada Cotton Manufacturing Company and these were placed on the books at their

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appraisal value of $1,050,000.00. Mr. Howson claims that the shareholders of Canada Cotton Manufacturing Company only got $800,000.00, but this transaction is only one of seven such transactions which took place at the same time. The total appraisal value of the properties purchased was $4,900,000.00 and this was the amount actually paid, represented by $2,600,000.00 common stock, $2,000,000.00 bonds and $300,000.00 bonds assumed. It is evident, therefore, that if the shareholders of one mill received less than the appraisal value, the shareholders of others received more.

In the fifth place, the Commission accountant further considers that the company carries its assets at an excessive depreciation although these are the depreciations allowed under the taxing statutes of the country, and he proposes to add a sum of $9,000,000.00 on the basis of the amount of fire insurance carried by the company. But this value is a very different one from anything which the company could obtain for its properties. A striking example of this is given in the sale of the Cornwall Mill of the Cornwall York and Manufacturing Company which took place last September. It was carried on the books of the company at $106,209.17. It was insured for $173,544.00. It was sold for $10,000.00 and as it had become a liability this was so much found money for the company. This is not an isolated case and can be supported by similar sales. It is therefore evident that the insurance appraisal figure bears no relationship either to the book value or to the realizable value of a company's assets and cannot be properly used for the purpose for which it was used by the Commission's accountant

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in preparing his statement.

The company's auditor has prepared a proper statement from the returns filed with the Commission showing the capital employed by Canadian Cottons, Limited and its annual earnings from 1893 to 1936, and this shows on its face the true state of affairs and that this company for over forty-four years has made an average profit of 4.95%. It should be noted that a substantial part of this profit has not been received in cash by the shareholder but has been reinvested for him in the company and is only available in the form of goods, plant and buildings. At any time at which the shareholders might wish to realize this, it is evident from the Cornwall Mill sale that they could not hope to receive any very substantial consideration for their investment, which is only valuable if the company continues to operate on a dividend basis.

As to the distributions of profits, these have always been on a very modest scale. For the eleven-year period from 1926 to 1936 the company's total sales amounted to $85,414,227.19. Of this amount the employees of the company, exclusive of the executive and of office salaries, received $26,519,201.00 or 31%. The shareholders, both preferred and common, received a total during the same period of $3,720,030.00 or 4.3%.

CONCLUSION

In submitting the above argument to the Commissioner, Canadian Cottons, Limited wishes to state that it has uniformly tried over a period of forty-four years to conduct its affairs in a way that has been fair to its employees, its shareholders, its customers, the consuming public

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We reserve the right to reply, if necessary, to anything submitted by Commission Counsel not dealt with in the foregoing Brief.

MONTREAL, January 15th, 1937.

Campbell McMaster Couture Kerry & Bruneau

Attorneys for Canadian
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We reserve the right to reply, if necessary, to anything submitted by Commission Counsel not dealt with in the foregoing Brief.

[illegible], January 11th, 1937.

[illegible]

Attorneys for Canadian Cottons, Limited.

SCHEDULE SHOWING GOODS TAKEN IN STOCK AT LISTED SELLING PRICE, MARCH 31st, 1936, AND EITHER STILL ON HAND OR SOLD WHOLLY OR IN PART AT PRICES BELOW INDICATED COVERING ONLY THE MARYSVILLE AND MILLTOWN MILLS OF CANADIAN COTTONS, LIMITED.

yle	Yardage in Inventory	Inventory List Price Per Yard.	Total List Price	Actual Price at which goods Offered or Sold	Estimated Loss on Inventory Sold or Unsold.
.Andrews	123,807	.11¼	$13,928.29	.08	$ 4,023.73
eneagles	67,873	.13¼	8,993.17	.08	3,563.33
. Croix	71,715	.15	10,757.25	.12½	1,792.88
982	38,127	.10	3,812.70	.08	762.54
13	23,655	.15	3,548.25	.11	946.20
553	8,194	.16¾	1,372.50	.12½	348.25
950	164,442	.25	41,110.50	.23	3,288.84
955	266,562	.24	63,974.88	.22	5,331.24
965	32,768	.27½	9,011.20	.23¼	1,392.64
970	58,798	.24	14,111.52	.20	2,351.92
990	69,529	.19	13,210.51	.17½	1,042.94
.012	27,573	.37½	10,339.88	.36	413.60
.016	34,431	.50	17,715.50	.45	1,721.55
.017X	20,361	.67½	13,743.68	.62	1,119.86
.037	13,488	.32	4,316.16	.25	944.16
108	34,090	.21½	7,329.35	.15	2,215.85
341	3,783	.33	1,248.39	.20	491.79
1 etc.	133,954	.12½	16,744.25	.10¾	2,344.20
87	74,543	.15	11,181.45	.11½	2,609.00
90-91	43,840	.20	8,768.00	.18½	657.60
S	13,260	.62½	8,287.50	.55	994.50
FS	8,353	.57½	4,802.98	.51½	501.18
G 20	25,488	.46	11,724.48	.38	2,039.04
G 21	704	.35	246.40	.31½	24.64
G 32	7,071	.46	3,181.95	.38	565.68
G 33 - X	15,828	.30	4,748.40	.26	633.12
G 34N	45,514	.50	22,757.00	.43	3,185.98
G 35	2,208	.57½	1,259.60	.37	452.64
G 37	3,043	.33½	1,019.41	.20	410.81
G 38	22,102	.67½	14,918.85	.62	1,215.61
G 39	8,555	.46	3,935.30	.42	342.20
G 40	20,829	.46	9,581.34	.42	833.16
G 41	8,025	.47½	3,811.88	.43	361.13
M 600	33,223	.27½	9,136.33	.15	4,152.88
M 601	2,977	.27½	818.68	.15	372.13
M 603	16,023	.25	4,005.75	.15	1,602.30
M 606	6,170	.25	1,542.50	.15	617.00
M 608	37,984	.19	7,216.96	.12½	2,468.96
M 609	4,484	.17½	784.70	.12½	224.20
M 610	61,133	.40	24,453.20	.19½	12,532.27
M 620	27,585	.27½	7,585.88	.15	3,448.13
M 621	4,938	.30	1,481.40	.15	740.70
M 622	3,987	.25	996.75	.18½	259.16
M 623	4,237	.27½	890.18	.17½	423.70
M 624	2,461	.27½	676.78	.17½	246.10
M 625	1,082	.25	270.50	.15	108.20
M 626	15,991	.25	3,997.75	.15	1,599.10
M 629	3,932	.27½	1,081.30	.15	491.50
M 718	1,249	.22½	281.25	.15	93.68
M 733	3,365	.30	1,009.50	.15	504.75
M 832	4,374	.30	1,312.20	.28	87.48
M 840	234	.35	81.90	.20	35.10
M 841	6,454	.30	1,936.20	.20	645.40
M 887	6,288	.22½	1,414.80	.13½	565.92
M 894-M	12,580	.27½	3,459.50	.22½	629.00
M 8940	6,670	.25	1,667.50	.22½	166.75
M 897	26,181	.32	8,377.92	.27½	1,178.15
M 898	6,748	.34	2,294.32	.30	269.92
M 8938	19,832	.37½	7,437.00	.34½	594.96

Style	Yardage in Inventory	Inventory List Price Per Yard.	Total List Price	Actual Price at which goods Offered or Sold	Estimated Loss on Inventory Sold or Unsold.
M 899-M	5,185	.50	2,592,50	.40	518.50
M 900	5,906	.18½	1,092.61	.12½	354.36
M 920	8,024	.25	2,006.00	.16½	682.04
M 930	2,707	.25	676.75	.15	270.70
M 940	4,964	.35	1,737.40	.18½	819.06
3022	4,016	.60	2,409.60	.30	1,204.80
4002	16,179	.27½	4,449.23	.20	1,213.43
4006	2,471	.37½	926.63	.22½	370.65
4018	40,755	.55	22,415.25	.28	11,003.85
4020	5,674	.37½	2,127.75	.25	709.25
4021	28,460	.30	8,538.00	.25	1,423.00
4023	14,100	.60	8,460.00	.30	4,230.00
4024	3,038	.60	1,822.80	.30	911.40
4030	4,816	.50	2,408.00	.45	240.80
4031	4,096	.55	2,252.80	.30	1,024.00
4033	55,016	.35	19,255.60	.30	2,750.80
4034	5,306	.50	2,653.00	.35	795.90
4050	4,474	.47½	2,125.15	.40	335.55
4051	4,569	.50	2,284.50	.40	456.90
4052	5,179	.37½	1,942.13	.25	647.39
4057	4,608	.47½	2,188.80	.25	1,036.80
4058	3,416	.50	1,708.00	.20	1,024.80
SF 1	7,117	.35	2,490.95	.25	711.70
SF 2	25,907	.47½	12,305.83	.22	6,606.29
SF 10	6,624	.35	2,318.40	.30	331.20
D 120	3,000	.25	750.00	.14	330.00
D 122	9,600	.25	2,400.00	.15	960.00
D 130	2,640	.25	660.00	.15	264.00
D 142	18,100	.25	4,525.00	.15	1,810.00
D 132	10,740	.25	2,685.00	.16	966.60
D 133	9,660	.25	2,415.00	.13½	1,110.90
D 137	19,440	.25	4,960.00	.13	2,332.80
D 145	17,560	.22½	3,951.00	.15	1,317.00
D 146	11,530	.22½	2,594.25	.15½	807.10
D 147	7,710	.25	1,927.50	.15	771.00
D 148	3,600	.22½	810.00	.15½	252.00
D 150	11,520	.45	5,184.00	.29	1,843.20
D 151	11,080	.45	4,986.00	.29	1,772.80
D 152	13,380	.45	6,021.00	.30	2,007.00
D 154	10,540	.45	4,743.00	.37½	790.50
M 627	9,834	.19	1,868.40	.17	196.68
F 578	66,847	.20	13,369.40	.18½	1,002.71
B 1	1,580	.19¾	312.05	.15	75.05
			639,052.55		141,261.84

NOTE : The Gibson and St.Croix Mills at Marysville and Milltown respectively are those in which fluctuations of price are most likely to occur. The foregoing represents a decline of 22.10% upon a substantial part of the company's inventory and many of these prices will have to be reduced still further to effect a sale. It is to be noted that this happens in a year of partial recovery when the best results should normally be looked for. A discount being necessary to cover unquestioned items has been tentatively suggested as 20%. It will be seen from the foregoing that the difference between the estimate at the end of the year and the price of actual sale may easily call for an additional discount of a substantial nature and that the company's discounts are, therefore, by no means extravagant or taken on any clearly wrong basis.

Style	Yardage in Inventory	Inventory List Price Per Yard.	Total List Price	Actual Price at which goods Offered or Sold	Estimated Loss on Inventory Sold or Unsold.
[illegible]	[illegible]	[illegible]	[illegible]	.10	[illegible]
[illegible]	5,906	.18½	1,092.61	.12½	354.36
[illegible]	8,024	.25	2,006.00	.16½	682.04
[illegible]	2,707	.25	676.75	.15	270.70
[illegible]	4,964	.35	1,737.40	.18½	819.06
[illegible]	4,016	.60	2,409.60	.30	1,204.80
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	2,471	.37½	926.63	.22½	370.65
[illegible]	40,755	.55	22,415.25	.28	11,003.85
[illegible]	5,674	.37½	2,127.75	.25	709.25
[illegible]	28,460	.30	8,538.00	.25	1,423.00
[illegible]	14,100	.60	8,460.00	.30	4,230.00
[illegible]	3,038	.60	1,822.80	.30	911.40
[illegible]	4,816	.50	2,408.00	.45	240.80
[illegible]	4,096	.55	2,252.80	.30	1,024.00
[illegible]	55,016	.35	19,255.60	.30	2,750.80
[illegible]	5,306	.50	2,653.00	.35	795.90
[illegible]	4,474	.47½	2,125.15	.40	335.55
[illegible]	4,569	.50	2,284.50	.40	456.90
[illegible]	5,179	.37½	1,942.13	.25	647.39
[illegible]	4,608	.47½	2,188.80	.25	1,036.80
[illegible]	3,416	.50	1,708.00	.20	1,024.80
1	7,117	.35	2,490.95	.25	711.70
2	[illegible]	[illegible]	[illegible]	.22	[illegible]
10	[illegible]	[illegible]	[illegible]	.30	[illegible]
[illegible]	3,000	.25	750.00	.14	330.00
[illegible]	9,600	.25	2,400.00	.15	960.00
[illegible]	2,640	.25	660.00	.15	264.00
[illegible]	18,100	.25	4,525.00	.15	1,810.00
[illegible]	10,740	.25	2,685.00	.16	966.60
[illegible]	9,660	.25	2,415.00	.13½	1,110.90
[illegible]	19,440	.25	4,860.00	.13	2,332.80
[illegible]	17,560	.22½	3,951.00	.15	1,317.00
[illegible]	11,530	.22½	2,594.25	.15½	807.10
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	3,600	.22½	810.00	.15½	252.00
[illegible]	11,520	.45	5,184.00	.29	1,843.20
[illegible]	11,080	.45	4,986.00	.29	1,772.80
[illegible]	13,380	.45	6,021.00	.30	2,007.00
[illegible]	10,540	.45	4,743.00	.37½	790.50
[illegible]	[illegible]	[illegible]	[illegible]	.17	[illegible]
[illegible]	66,847	.20	13,369.40	.18½	1,002.71
1	[illegible]	.19½	[illegible]	.15	[illegible]
			639,052.55		141,261.84

[illegible] are those in which fluctuations of price are most likely to occur. The foregoing represents a decline of [illegible] upon a substantial part of the company's inventory and many of these prices will have to be reduced still further to effect a sale. It is to be noted that this happens in a year of partial recovery when the best results should normally be looked for. A discount being necessary to cover unquestioned items has been tentatively suggested as 20%. It will be seen from the foregoing that the difference between the estimate at the end of the year and the price of actual sale may easily call for an additional discount of a substantial nature and that the company's discounts are, therefore, by no means extravagant or taken on any clearly wrong basis.

CANADIAN COTTONS LIMITED

CAPITAL EMPLOYED

Year	Bonds	Preferred Stock	Common Stock	Undistributed Surplus	TOTAL
1893	2,092,000.	-	2,700,000.	122,526.	4,914,526.
1894	2,109,000.	-	2,700,000.	125,277.	4,934,277.
1895	2,140,000.	-	2,700,000.	251,733.	5,091.733.
1896	2,100,000.	-	2,700,000.	494,786.	5,294,786.
1897	2,100,000.	-	2,700,000.	516,662.	5,316.662
1898	2,050,000.	-	2,700,000.	627,538.	5,377,538.
1899	1,950,000.	-	2,700,000.	784,416.	5,434,416.
1900	1,950,000.	-	2,700,000.	1,024,844.	5,674,844.
1901	1,950,000.	-	2,700,000.	1,128,178.	5,778,178.
1902	1,850,000.	-	2,700,000.	1,130,986.	5,680.986.
1903	1,850,000.	-	2,700,000.	1,135,669.	5,685,669.
1904	1,850,000.	-	2,700,000.	1,141,475.	5,691,475.
1905	1,850,000.	-	2,700,000.	1,231,567.	5,781,567.
1906	1,850,000.	-	2,700,000.	1,328,754.	5,878,754.
1907	1,850,000.	-	2,700,000.	1,394,330.	5,944,330.
1908	1,850,000.	-	2,700,000.	1,534,190.	6,084,190.
1909	1,850,000.	-	2,700,000.	1,548,557.	6,098,557.
1910	1,850,000.	-	2,700,000.	1,588,003.	6,138.003.
1910 (½ yr)	1,850,000.	1,000,000.	2,700,000.	1,602,762.	7,152,762.
1911 (½ yr)	3,650,000.	3,575,000.	2,715,500.	426,282.	10,366,782.
1912	3,650,000.	3,575,000.	2,715,500.	600,760.	10,541,260.
1913	4,203,700.	3,661,500.	2,715,500.	805,973.	11,386,673.
1914	4,205,000.	3,661,500.	2,715,500.	969,225.	11,551,225.
1915	4,205,000.	3,661,500.	2,715,500.	1,129,890.	11,711,890.
1916	4,194,000.	3,661,500.	2,715,500.	1,748,047.	12,319,047.
1917	4,194,000.	3,661,500.	2,715,500.	2,262,350.	12,833,350.
1918	4,194,000.	3,661,500.	2,715,500.	3,010,241.	13,581,241.
1919	3,979,452.	3,661,500.	2,715,500.	3,647,378.	14,003,830.
1920	3,498,054.	3,661,500.	2,715,500.	4,894,150.	14,769,204.
1921	3,393,480.	3,661,500.	2,715,500.	3,491,037.	13,261,517.
1922	3,439,645.	3,661,500.	2,715,500.	3,467,313.	13,283,958.
1923	3,399,717.	3,661,500.	2,715,500.	4,047,412.	13,824,129.
1924	3,357,509.	3,661,500.	2,715,500.	3,891,832.	13,626,341.
1925	3,300,161.	3,661,500.	2,715,500.	3,998,331.	13,675,492.
1926	3,258,408.	3,661,500.	2,715,500.	4,743,603.	14,379,011.
1927	3,128,182.	3,661,500.	2,715,500.	4,707,793.	14,212,975.
1928	3,083,024.	3,661,500.	2,715,500.	4,884,132.	14,344,156.
1929	3,026,087.	3,661,500.	2,715,500.	4,734,897.	14,137,984.
1930	2,968,825.	3,661,500.	2,715,500.	4,282,090.	13,627,915.
1931	2,913,795.	3,661,500.	2,715,500.	3,754,199.	13,044,994.
1932	2,519,020.	3,661,500.	2,715,500.	3,426,877.	12,322,897.
1933	1,865,884.	3,661,500.	2,715,500.	3,276,301.	11,519,185.
1934	1,852,432.	3,661,500.	2,715,500.	3,571,821.	11,801,253.
1935	352,967.	3,661,500.	2,715,500.	3,954,338.	10,684,305.
1936	-	3,661,500.	2,715,500.	4,007,312.	10,384,312.
TOTAL	118,773,342.	96,026,000.	121,903,000.	102,445,837.	439,148,179.
Average per yr.	2,639,408.	2,133,911.	2,708,955.	2,276,574.	9,758,848.

CANADIAN COTTONS LIMITED

ANNUAL EARNINGS

Year	Bond Interest	Dividends on Common Stock	Dividends on Pref. Stock	Added to Surplus	TOTAL	%
1893	114,000.00	121,050.00	-	122,526.03	357,576.03	7.27
1894	117,540.00	81,000.00	-	2,751.17	201,291.17	4.07
1895	119,550.00	-	-	126,456.06	246,006.06	4.83
1896	129,000.00	-	-	243,053.32	372,053.32	7.02
1897	126,000.00	-	-	21,876.32	147,876.32	2.78
1898	126,000.00	-	-	110,875.74	236,875.74	4.40
1899	123,000.00	54,000.00	-	156,877.45	333,877.45	6.14
1900	117,000.00	108,000.00	-	240,428.14	465,428.14	8.20
1901	117,000.00	108,000.00	-	103,334.67	328,334.67	5.68
1902	111,000.00	108,000.00	-	2,807.95	221,807.95	3.90
1903	111,000.00	108,000.00	-	4,683.11	223,683.11	3.93
1904	111,000.00	108,000.00	-	5,805.37	224,805.37	3.95
1905	111,000.00	-	-	90,092.20	201,092.20	3.47
1906	111,000.00	54,000.00	-	97,186.68	262,186.68	4.46
1907	111,000.00	81,000.00	-	65,576.43	257,576.43	4.33
1908	111,000.00	108,000.00	-	139,860.27	358,860.27	5.90
1909	111,000.00	108,000.00	-	14,366.53	233,366.53	3.82
1910	111,000.00	108,000.00	-	39,445.99	258,445.99	4.21
1910 (½ yr)	78,000.00	27,000.00	-	14,759.12	119,759.12	3.34
1911 (½ yr)	100,500.00	-	53,625.00	77,895.05	232,020.05	4.48
1912	201,000.00	-	214,500.00	174,477.38	589,977.38	5.59
1913	207,500.00	-	215,797.50	205,213.18	628,510.68	5.52
1914	210,000.00	-	219,690.00	163,252.63	592,942.63	5.13
1915	210,250.00	-	219,690.00	160,665.29	590,605.29	5.04
1916	209,700.00	-	219,690.00	618,156.66	1,047,546.66	8.50
1917	209,700.00	108,620.00	219,690.00	514,302.49	1,052,312.49	8.19
1918	209,700.00	122,197.50	219,690.00	747,891.96	1,299,479.46	9.57
1919	209,700.00	162,930.00	219,690.00	637,136.16	1,229,456.16	8.77
1920	177,660.00	176,507.50	219,690.00	1,246,772.40	1,820,629.90	12,32
1921	188,607.00	217,240.00	219,690.00	1,403,112.99	777,575.99	5.85
1922	176,934.70	217,240.00	219,690.00	23,723.31	590,141.39	4.44
1923	162,046.32	217,240.00	219,690.00	580,099.18	1,179,075.50	8.52
1924	160,167.21	217,240.00	219,690.00	155,580.58	441,516.63	3.24
1925	157,079.30	217,240.00	219,690.00	106,498.61	700,507.91	5.12
1926	154,924.32	217,240.00	219,690.00	745,271.62	1,337,125.94	9.30
1927	148,324.51	217,240.00	219,690.00	35,809.54	549,444.97	3.86
1928	145,651.59	217,240.00	219,690.00	176,339.81	758,921.40	5.29
1929	143,716.52	217,240.00	219,690.00	149,235.74	431,410.78	3.05
1930	139,472.31	162.930.00	219,690.00	452,807.13	69,285.18	.51
1931	137,723.14	-	219,690.00	527,891.21	170,478.07	1.30
1932	132,465.89	-	219,690.00	327,321.90	24,833.99	.20
1933	87,029.60	-	219,690.00	150,575.78	156,143.82	1.35
1934	81,648.00	54,310.00	219,690.00	295,520.03	651,168.03	5.51
1935	81,491.39	108,620.00	219,690.00	382,517.12	792,318.51	7.41
1936	20,670.75	108,620.00	219,690.00	52,973.45	401,954.20	3.86
TOTAL	6,229,752.55	4,241,945.00	5536,792.50	5,261.687.39	21,270,177.44	
Average per yr.	141,585.28	96,407.84	125,836.19	119,583.81	483,413.12	4.95

CANADIAN COTTONS LIMITED

ANNUAL EARNINGS

Year	Bond Interest	Dividends on Common Stock	Dividends on Pref. Stock	Added to Surplus	TOTAL
1893	114,000.00	121,050.00	-	122,526.03	357,576.03
1894	117,540.00	81,000.00	-	2,751.17	201,291.17
1895	119,550.00	-	-	126,456.06	246,006.06
1896	129,000.00	-	-	243,053.32	372,053.32
1897	126,000.00	-	-	21,876.32	147,876.32
1898	126,000.00	-	-	110,875.74	236,875.74
1899	123,000.00	54,000.00	-	156,877.45	333,877.45
1900	117,000.00	108,000.00	-	240,428.14	465,428.14
1901	117,000.00	108,000.00	-	103,334.67	328,334.67
1902	111,000.00	108,000.00	-	2,807.95	221,807.95
1903	111,000.00	108;000.00	-	4,683.11	223,683.11
1904	111,000.00	108,000.00	-	5,805.37	224,805.37
1905	111,000.00	-	-	90,092.20	201,092.20
1906	111,000.00	54,000.00	-	97,186.68	262,186.68
1907	111,000.00	81,000.00	-	65,576.43	257,576.43
1908	111,000.00	108,000.00	-	139,860.27	358,860.27
1909	111,000.00	108,000.00	-	14,366.53	233,366.53
1910	111,000.00	108,000.00	-	39,445.99	258,445.99
1910 (¾ yr)	78,000.00	27,000.00	-	14,759.12	119,759.12
1911 (½ yr)	100,500.00	-	53,625.00	77,895.05	232,020.05
1912	201,000.00	-	214,500.00	174,477.38	589,977.38
1913	207,500.00	-	215,797.50	205,213.18	628,510.68
1914	210,000.00	-	219,690.00	163,252.63	592,942.63
1915	210,250.00	-	219,690.00	160,665.29	590,605.29
1916	209,700.00	-	219,690.00	618,156.66	1,047,546.66
1917	209,700.00	108,620.00	219,690.00	514,302.49	1,052,312.49
1918	209,700.00	122,197.50	219,690.00	747,891.96	1,299,479.46
1919	209,700.00	162,930.00	219,690.00	637,136.16	1,229,456.16
1920	177,660.00	176,507.50	219,690.00	1,246,772.40	1,820,629.90
1921	188,607.00	217,240.00	219,690.00	1,403,112.99	777,575.99
1922	176,934.70	217,240.00	219,690.00	23,723.31	590,141.39
1923	162,046.32	217,240.00	219,690.00	580,099.18	1,179,075.50
1924	160,167.21	217,240.00	219,690.00	155,580.58	441,516.63
1925	157,079.30	217,240.00	219,690.00	106,498.61	700,507.91
1926	154,924.32	217,240.00	219,690.00	745,271.62	1,337,125.94
1927	148,324.51	217,240.00	219,690.00	35,809.54	549,444.97
1928	145,651.59	217,240.00	219,690.00	176,339.81	758,921.40
1929	143,716.52	217,240.00	219,690.00	149,235.74	431,410.78
1930	139,472.31	162.930.00	219,690.00	452,807.13	69,285.18
1931	137,723.14	-	219,690.00	527,291.21	170,478.07
1932	132,465.89	-	219,690.00	327,321.90	24,833.99
1933	87,029.60	-	219,690.00	150,575.78	156,143.82
1934	81,648.00	54,310.00	219,690.00	295,520.03	651,168.03
1935	81,491.39	108,620.00	219,690.00	382,517.12	792,318.51
1936	20,670.75	108,620.00	219,690.00	52,973.45	401,954.20
TOTAL	6,229,752.55	4,241,945.00	5536,792.50	5,261,687.39	21,270,177.44
Average per yr.	141,585.28	96,407.84	125,836.19	119,583.81	483,413.12